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FOREIGN SERVICE DESPATCH

PRIORITY

FROM: AMEMBASSY, TAIPEI

399
DESP. NO.

TO: THE DEPARTMENT OF STATE, WASHINGTON.

February 3, 1953
DATE

REF: Department's Top Secret Instruction No. 22 of January 6, 1953, subject as this despatch.

ACTION	DEPT.	
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SUBJECT: U. S. OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO THE GOVERNMENT OF THE REPUBLIC OF CHINA ON FORMOSA.

The excellent draft paper which accompanied the Department's instruction under reference is being studied by officers of the Embassy and a detailed critique will be transmitted in due course. Meanwhile, a shorter paper is forwarded herewith in which an attempt has been made to sort out the major questions of U. S. policy toward Nationalist China which seem to require early decision in order to permit systematic planning for the immediate as well as the more distant future. It is believed that once these questions are answered many of the other issues raised in the Department's draft paper will be more or less automatically decided. Emphasis has been placed upon tangibles rather than the less immediate if no less important problems of political posture, propaganda, psychological and economic warfare, etc., etc. In the absence of current information as to policy development in Washington, no specific reference has been made to such questions as the possible blockade of the China coast or the use of Nationalist troops in Korea. The points covered, however, are basic to all such questions.

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ASSUMPTIONS

The following assumptions are basic to the further development of United States relations with the Government of the Republic of China established on Formosa:

a. It is essential to the security interests of the U. S. that Formosa and the Pescadores should remain in friendly hands.

b. The defense of Formosa will require U. S. naval, air and logistic support against major attacks as long as the China mainland remains under Communist control. Chinese ground forces, however, will be able to destroy enemy units which might penetrate sea and air defenses and effect a landing on Formosa.

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c. With continuing U. S. aid, the Government of the Republic of China will retain its control over Formosa and will remain firmly anti-Communist.

d. The Government of the Republic of China will continue to regard close cooperation with the U. S. as essential to its interests.

e. For the foreseeable future, the China mainland will remain under the control of a Communist regime hostile to the U. S. unless and until effective steps have been taken to liberate it.

f. For the foreseeable future, the capabilities of the Government of the Republic of China will not include the liberation from Communist domination of the China mainland, or any substantial portion thereof, even with U. S. naval, air and logistic support, unless and until the Communist regime has been seriously weakened internally and/or is engaged with or immediately threatened by other military forces of such strength that the intervention of Chinese Nationalist forces could be decisive.

g. The commitment of American ground forces on Formosa or on the China mainland should be avoided.

h. The United States does not intend to "start a war".

POLICY TO DATE

U. S. policy toward the Government of the Republic of China from mid-1950 to date has been implemented with the following primary objectives:

a. Formosa should be kept out of Communist hands.

b. In furtherance of (a) the Chinese Nationalist armed forces on Formosa, of the strength which has been maintained with little change since 1950, should be equipped and trained by the U. S. to increase their combat effectiveness over a period of several years.

c. The economy of Formosa should be given U. S. support sufficient to maintain stability and to increase economic production to a point where the island would be self-supporting within a few years, except for extraordinary defense expenditures occasioned by the continuing threat of Communist aggression.

d. The U. S. should make every effort to prevent the spread of open conflict to Formosa, or the involvement of the Government of the Republic of China in such conflict, but should avoid any formal and continuing commitment toward the island or toward the

Government of the Republic of China.

e. Aid programs have been based upon the assumption that objective (d) would be realized and that Chinese Nationalist armed forces would not be used in any important military operations outside Formosa and nearby islands; also that the "Mission of the Seventh Fleet" probably would deter the Communists from offensive action against Formosa as long as that mission continued, unless in the meantime they should decide upon open and unequivocal war against the U. S.

f. Guerrilla activities against the Communists, both along the China coast and inland, have been encouraged as a means of weakening the Communist position in certain areas and compelling them to deploy in those areas substantial military forces which might otherwise have been available for use in Korea, Indo-China, etc.

ACCOMPLISHMENTS TO DATE

Actual progress toward the objectives just mentioned include the following accomplishments (paragraph letters correspond to those under Policy to Date):

a. Formosa remains outside the Communist orbit.

b. The combat effectiveness of the Chinese Nationalist armed forces has been more than doubled in less than two years.

c. The economy of Formosa has been stabilized since 1951; with U. S. aid the budget has been substantially balanced, gold and foreign exchange resources maintained, and commodity prices kept steady. Gratifying progress has been made in increasing productivity at a rate which, if continued, would make the island economically self-supporting within a few years.

d,e,f. Formosa and the Government of the Republic of China have not become involved in open conflict on a scale generally recognized as such. Guerrilla activities supported indirectly from Formosa, however, have given the Communists considerable trouble and the scope of these activities is increasing. Moreover, the existence on Formosa and nearby islands of large military forces, which are constantly increasing in combat efficiency, undoubtedly has hampered Communist planning for aggression elsewhere.

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quoted verbatim in China Assignment pp. 150-154 by Karl Rankin

QUESTIONS FOR THE IMMEDIATE FUTURE

Although the U. S. military and economic aid program for Formosa in its present expanded form is less than two years old and has been carried out largely on an ad hoc basis, its size and scope imply a medium to long-term policy transcending the admitted objectives of defense and containment. In order to clarify the U. S. position and permit sound planning, therefore, it would be desirable to have answers to the following questions:

a. For what purposes and on what date or dates does the U. S. wish to have Chinese Nationalist armed forces ready for possible combat other than in defense of Formosa and the Pescadores? Until recently there has seemed to be no practicable alternative to accepting responsibility for equipping and training of the forces actually existing on Formosa and the Pescadores, within the limits of equipment and supplies available from the U. S. and within the capabilities of the Chinese officers and men at hand. Two years ago the combat efficiency of these forces was such that, despite the large number of men immediately involved (approximately 500,000), all of them were needed for defense. With the substantial improvement in their effectiveness since 1951, however, and in view of the evident necessity for continuing the assurance of American air and naval support in any case, the ground forces on Formosa may be stronger today than is necessary for purely defensive purposes and for maintaining internal order. The margin should be much greater a year hence. (Chinese Nationalist air and naval forces presumably should continue to be considered primarily as supporting elements for the ground forces and should be equipped accordingly.) The possible uses for this resulting strategic reserve, say within the next year or two, require early definition to provide a basis for both military and economic planning during the immediate future.

b. Does the U. S. wish to assist the Government of the Republic of China in expanding production on Formosa so that the island can become self-supporting within, say, four years, except for extraordinary defense expenditures? This would represent the logical continuation and realization of the economic program actually followed more or less consistently since mid-1951. Economic aid is already so involved with the military program, however, that any significant change in the latter is liable to upset the stability which now obtains, and nullify efforts to increase economic production, unless adequate funds are made available for all necessary purposes.

c. Does the U. S. wish to make formal commitments to the Government of the Republic of China, either now or in the forseeable future, involving the legal status and/or defense of Formosa, or envisaging support in its objective of liberating the China mainland from Communism, or for other purposes? The Chinese Nationalists are keenly aware of the fact that while the United States has signed a security pact with the ex-enemy, Japan, no formal and continuing commitment has been made to Nationalist China, either as to the defense of Formosa or as to their legal position with reference to the island. While no such action by the U. S. is expected, particularly since the recent change of administration, the Nationalists do not exclude the possibility that the U. S. may at some future date favor turning Formosa over to a "trustee" or even to a China mainland regime which had promised to behave. U. S. commitments on these points would help to consolidate the structure of mutual confidence between the U. S. and Nationalist China which has been laboriously reerected since 1950. The Chinese would, of course, welcome any additional steps by the U. S. which might support their "return to the mainland".

RECOMMENDATIONS

a. If the answer to the first question above indicates that Chinese Nationalist forces should be made ready for possible combat outside of Formosa, within the foreseeable future, urgent consideration should be given to the following:

1. The delivery of military supplies and equipment, and the staffing of MAAG, should be accelerated and expanded in a manner to permit adequate and timely training and equipment of the units required without unduly weakening the forces which would remain on Formosa for its defense.

2. The responsibilities of MAAG for training and equipment of Chinese Nationalist forces should be extended to units now stationed on Kinmen, Matsu and Tachen Islands (numbering about 75,000), parelleling present responsibilities for those on Formosa and the Pescadores (about 500,000).

3. In connection with (2), consideration should be given to transferring responsibility for various anti-Communist guerrilla activities, as carried on at present from off-shore islands, to the regular Chinese Nationalist armed forces and hence to the purview of MAAG. These activities would include blockade duties and raids, but presumably would not extend to guerrilla operations inland.

4. Equipment, American advisers and funds should be provided to step up the training of reserves and replacements.

5. It should be borne in mind that of the $102 million allocated for "economic aid" to Formosa during the fiscal year 1953 less than 23 percent is for capital goods to expand production and for technical assistance, while nearly two-thirds of the total goes directly and indirectly for the support of the large military establishment required to defend the island. The remaining 10 to 11 percent is for consumer goods to balance Formosa's international payments. Any increase in the military program, therefore, should be accompanied by adequate expansion of economic support for such increase, leaving intact the funds needed for balancing international payments and for such technical assistance and capital investment as may be considered desirable.

6. In arriving at totals for economic support of the military program, provision should be made for better pay and allowances, particularly in the case of officers and men who have families, as essential to maintaining morale.

If, on the other hand, the U. S. wishes the Chinese Nationalist armed forces to continue to play an almost purely defensive role, then the military aid program should be reexamined immediately in that light and urgent consideration should be given as to how the Government of the Republic of China might be reconciled to such an objective.

b. The U. S. should determine whether it wishes to support something along the lines of the Chinese Government's Four-Year Plan (1953-56, inclusive) to make Formosa economically self-supporting, which foresees the need for U. S. economic aid of approximately $250 million during that period. Actually, this figure includes a substantial amount (around $100 million) for imports of consumer goods which would serve the dual purpose of helping to balance international payments and at the same time provide local currency (counterpart funds) for direct support of the military program and for balancing the national budget deficit resulting from other outlays for defense. In any event, the continuation of the most modest military and economic aid program will require the balancing of international payments and of the national budget, as well as better compensation for civilian employees as well as military. Only on capital investment and technical assistance, totaling perhaps $75 million for the four years, would any saving be possible in the economic field.

c. Early consideration is recommended of U. S. desires as to bilateral or multilateral agreements affecting the Government of the Republic of China and/or Formosa. The absence of any formal and continuing U. S. commitment makes all programs and policies of a tentative and possibly temporary nature. Political, military and economic relations are influenced accordingly. The

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Chinese Nationalists feel that they must continue to plan for the eventuality, however remote it may seem at present, that the U. S. may again leave them on their own at a crucial moment. Under such conditions the mutual confidence necessary to full cooperation evidently is lacking, private investment is discouraged or prevented from assisting in economic recovery, and future planning often seems academic.

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The basic decision to be made, of course, is whether U. S. policy toward Free China is to be static or dynamic, neutral or positive; whether Formosa is simply a strategically important island which should be denied to the Communists or an important factor which can be helped to play a significant part in the eventual liberation of mainland China from Communist rule. The Iron Curtain in Asia will either move forward or back. Dynamic Communism will use every means to push it forward; only a dynamic Free World can push it back. To what extent does the U. S. wish to encourage the use of the considerable potential of Formosa and the Chinese Nationalist Government to that end?

Department pouch copies to Hong Kong and Admiral Radford.

K. L. Rankin